

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7661

Petition of Vermont Public Power Supply Authority,)
pursuant to 30 V.S.A. § 108(a), for Authority to Issue)
Long-term Debt for the Construction and Operation of)
the Swanton Peaking Generation Project)

Order entered: 10/6/2010

I. INTRODUCTION

On July 12, 2010, the Vermont Public Power Supply Authority ("VPPSA" or "Company") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. § 108(a) to obtain long-term financing to complete the construction of the Swanton Peaking Generation Project ("Project 10" or "Project"). VPPSA proposes to issue a combination of taxable and tax-exempt notes not to exceed \$3.5 million (collectively, the "Loan")¹ bearing a variable rate of interest based on the one-month London Interbank Offered Rate ("LIBOR") for a term of seven years. KeyBank National Association ("KeyBank") will provide the proposed financing. The Petition was supported by the prefiled testimony of Crystal Currier, Controller for VPPSA, and David John Mullett, General Manager for VPPSA, and by accompanying exhibits.

On August 25, 2010, the Department of Public Service ("DPS") submitted a letter to the Board stating that it believes that the Petition is consistent with the general good of the state, and recommending approval of the Petition without a hearing. The DPS also filed, concurrently with its recommendation, its Determination Under 30 V.S.A. § 202(f) finding that the issuance of long-term debt as set forth in the Petition is consistent with the *Vermont Electric Plan*.

1. VPPSA initially proposed total financing in the amount of \$3.65 million for a term of five to seven years, but later revised that amount downward to \$3.5 million after receiving most of the invoices associated with the final costs of the Project. Thus, the final terms of the note with KeyBank will be for \$3.5 million for a term of seven years. Currier supp. pf. 9/21/10 at 2; Currier supp. pf. 9/29/10 at 2-3.

On September 15, 2010, the Clerk of the Board issued a letter informing VPPSA that additional information was needed regarding the actual final costs of the Project and the amount to be financed in order to complete the review of the Petition.

On September 22, 2010, VPPSA filed the requested information. This filing by VPPSA raised additional questions concerning the start-up costs of the Project and prompted a second letter of inquiry from the Clerk of the Board on September 23, 2010.

On September 30, 2010, VPPSA filed its response, which included supplemental prefiled testimony of Crystal Currier. In its response VPPSA reduced the amount of its requested financing from \$3.65 million to \$3.5 million.

I have reviewed the Petition, the supporting documents, and the supplemental filings. I conclude that approval of VPPSA's Petition, as amended, pursuant to 30 V.S.A. § 108(a) is appropriate and that such approval may occur without hearing. Based upon the evidence of the record, the exhibits presented in this docket, and the DPS letters of August 25, 2010, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS

1. VPPSA has thirteen members that are all Vermont municipal electric utilities.² Petition at 1.

2. On January 21, 2009, in Docket 7376, the Board issued VPPSA a Certificate of Public Good pursuant to 30 V.S.A. § 248, for Project 10, which is a multi-fuel peaking generation project in Swanton, Vermont. VPPSA completed the Project in 2010 and is now engaged in start-up operations. Project 10 is physically connected to the Swanton Village, Inc., Electric Department's ("Swanton") electric system, although the electricity output and capacity resources

2. Barton Village, Inc. Electric Department; Village of Enosburg Falls Water & Light Department; Village of Hyde Park Electric Department; Town of Hardwick Electric Department; Village of Jacksonville Electric Company; Village of Johnson Water & Light Department; Village of Ludlow Electric Light Department; Village of Lyndonville Electric Department; Village of Morrisville Water & Light Department; Village of Northfield Electric Department; Village of Orleans Electric Department; Town of Readsboro Electric Light Department; and Swanton Village, Inc. Electric Department.

will be sold to eleven of VPPSA's municipal members ("Members")³ and to Vermont Electric Cooperative, Inc. ("VEC"), all of which have committed to purchase a percentage of the output by entering into Power Sales Agreements ("PSAs") with VPPSA. Petition at 2; Mullett pf. at 2.

3. On June 12, 2009, in Docket No. 7521, VPPSA received Board approval to issue \$26.8 million in long-term bonds to finance the Project. VPPSA subsequently closed on the bond financing on August 12, 2009, in the amount of \$23.995 million. At that time, VPPSA opted to borrow less than was authorized by the Board because VPPSA expected that the Project would be completed under budget. However, based on the final construction cost for the Project which came in at \$26,528,159, VPPSA now believes that its original cost estimate for the Project was more accurate. Petition at 2; Mullett pf. at 2-3; Currier supp. pf. 9/29/10 at 3.

4. VPPSA also experienced extended delays in starting up the two turbines at the Project which resulted in escalated start-up costs, including a fire at Unit No. 2 that resulted in substantial damage to the unit. The damaged unit has since been repaired and is back in service. The total costs to repair the unit have come in at \$1,615,509 million of which VPPSA's insurance company has already paid \$1,526,165 million. The incremental difference of \$89,344 is currently being negotiated with the insurer; however, VPPSA is uncertain as to when the claim will be resolved or what the final amount of reimbursement will be. As a result, VPPSA has included this amount as part of its proposed financing in the event that the claim is not paid in full or in a timely manner.⁴ Actual start-up costs, excluding the remaining insurance claim, total approximately \$1.5 million. VPPSA has used its short-term line of credit in the interim to cover the cost of completing the Project and to pay for start-up and operational costs. VPPSA will pay down its line of credit with the proceeds of the proposed Loan. Mullett pf. at 2-3; Currier supp. pf. 9/29/10 at 4.

3. The participating municipal members are: Barton Village, Inc. Electric Department; Village of Enosburg Falls Water & Light Department; Town of Hardwick Electric Department; Village of Jacksonville Electric Company; Village of Johnson Water & Light Department; Village of Ludlow Electric Light Department; Village of Lyndonville Electric Department; Village of Morrisville Water & Light Department; Village of Northfield Electric Department; Village of Orleans Electric Department; and Swanton Village, Inc. Electric Department.

4. VPPSA states that the incremental difference of \$89,344 does not materially add to the interest expense of the Loan and, under the terms of VPPSA's note with KeyBank, the amount can be repaid without penalty. In addition, VPPSA also anticipates filing a claim for revenue lost while Unit 2 was out of service. Currier supp. pf. 9/29/10 at 4.

5. VPPSA summarizes the proposed financing as follows:

Actual Construction Cost	\$26,528,159
Actual Start-up Costs	\$ 1,512,422
Insurance Claim	<u>\$ 89,344</u>
Total	\$28,129,925
<u>Less:</u>	
Bond Issuance	(\$23,995,000)
Issuance Premium	<u>(\$ 667,968)</u>
Total Proceeds	(\$24,662,968)
Net Funding Shortfall	\$ 3,466,957
Proposed KeyBank Note	\$ 3,500,000

Exhibit VPPSA-Currier-Supp(2)-1

6. VPPSA proposes to enter into a long-term note with KeyBank in an amount not to exceed \$3.5 million to fund the completion and start-up costs of Project 10. The term of the Loan is expected to be between five and seven years. Because VEC owns 8.84% of the output of the Project, the Loan will be issued in two parts, one part structured as tax-exempt representing the Members' participatory share and one part (a minimum of 5%) structured as taxable representing VEC's participation.⁵ The interest rate on the taxable portion of the Loan will be a variable rate based on LIBOR plus 2.25%. The tax-exempt portion will have a variable rate formula based on LIBOR plus 3.14% multiplied by 1 minus the Federal Corporate Tax Rate. As of July 1, 2010, the rates were 2.60% and 2.27%, respectively. KeyBank has offered VPPSA a fixed rate option via an interest rate swap based on interest rates available through the interest rate swap market at the time of closing. Given the present uncertainty of long-term interest rates, VPPSA requests approval of both the variable rate formulas and the ability to fix the interest rate up to a maximum of 7%. Currier pf. at 3; exh. VPPSA-Currier-2.

5. Unlike the eleven municipal Members, VEC is not a tax-exempt entity.

III. DISCUSSION & CONCLUSION

Based upon the foregoing and the evidence in the record, I find that VPPSA's Petition as described above will be consistent with the general good of the State. I therefore recommend that the Board approve the Petition and authorize the issuance of long-term debt financing without hearing.

The parties have waived their rights to file exceptions and present arguments under 3 V.S.A. § 811. Therefore, the proposal for decision has not been served on the parties.

Dated at Montpelier, Vermont this 6th day of October, 2010.

s/ Jay E. Dudley

Jay E. Dudley
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are adopted.
2. The request for long-term financing as set forth in Vermont Public Power Supply Authority's ("VPPSA") petition in this docket, and as described in the Findings, is consistent with the general good of the State of Vermont.
3. Pursuant to 30 V.S.A. § 108(a), consent is hereby given to VPPSA to obtain long-term financing to complete the construction of the Swanton Peaking Generation Project in an amount not to exceed \$3.5 million, through a combination of taxable and tax-exempt notes with KeyBank National Association, at variable rates of interest and the ability to fix the interest rate with the use of interest rate swaps up to a maximum of 7%, all according to terms consistent with the Findings above.
4. This Order does not constitute approval for VPPSA, for any VPPSA members, or for Vermont Electric Cooperative, Inc., of the resulting capital structure or of any particular capital or operating expenditure that may be implemented with the proceeds from the issuance of long-term debt contemplated in the petition in this docket. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Vermont Public Service Board ("Board"), from reviewing or challenging such expenditures or resulting capital structure.
5. VPPSA shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.
6. VPPSA shall provide the Board and the DPS with a complete set of final loan closing documents within 10 days of the loan closing.

Dated at Montpelier, Vermont, this 6th day of October, 2010.

<u>s/ James Volz</u>)	
)	PUBLIC SERVICE
)	
)	BOARD
)	
)	OF VERMONT
<u>s/ John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: October 6, 2010

ATTEST: s/ Susan M. Hudson
Clerk of the Board

Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@psb.state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.